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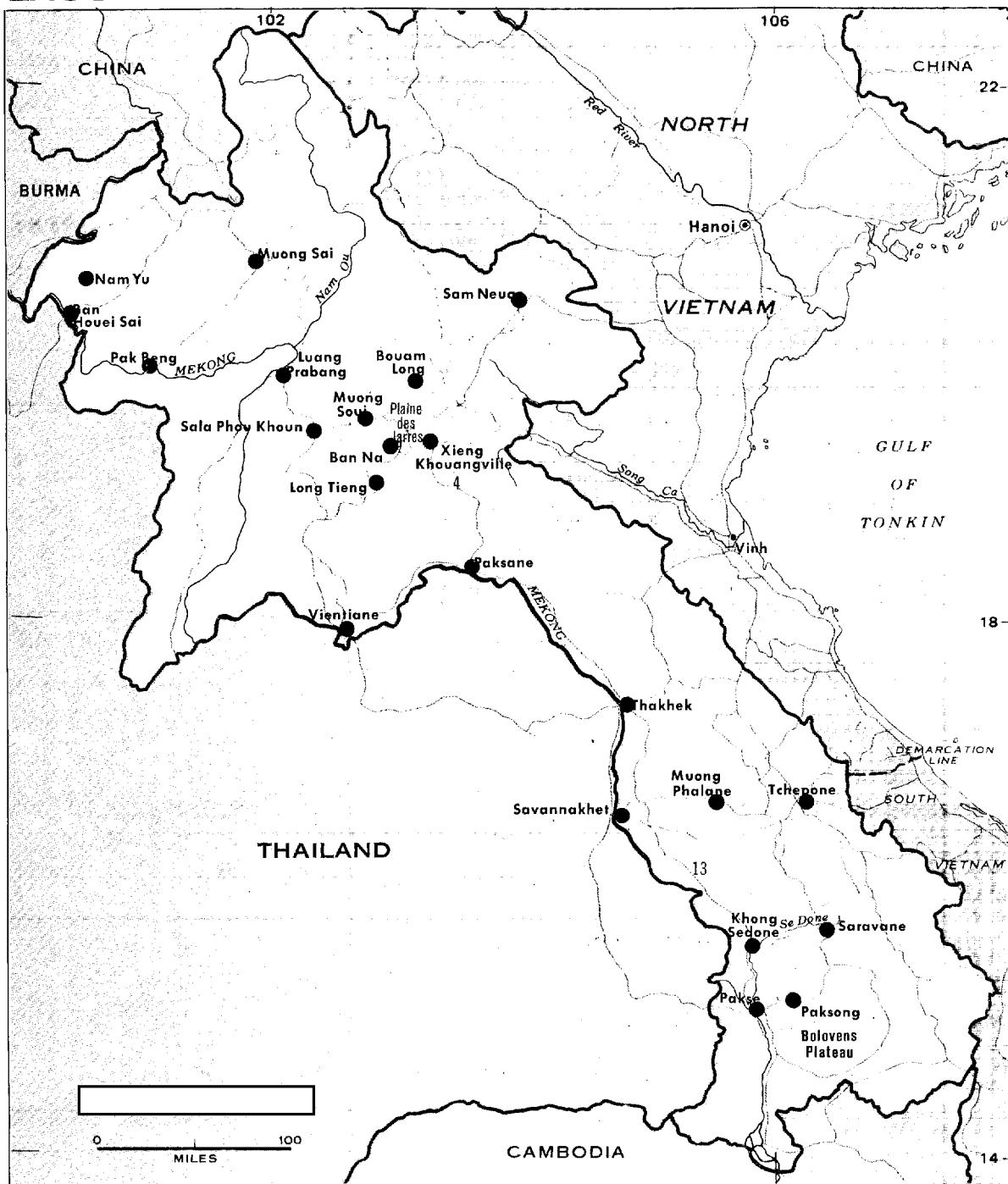
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LAOS



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● Government controlled

● Communist controlled

LAOS: Cease-fire violations have tapered off.

Communist units in the south followed up the capture of Paksong at mid-day on 22 February by attacking and dispersing a government battalion occupying static positions west of Saravane. In the central panhandle, the Communists fired mortar barrages at government positions east and south of Thakhek, and preliminary reports indicate that a Lao Army force pushing north on Route 13 from Thakhek was attacked early on 23 February.

In the north, Communist units late on 22 February shelled and probed government positions at the Sala Phou Khoun road junction. Other units harassed irregular defenses near the western edge of the Plaine des Jarres and attacked elements of a 700-man irregular force near Xieng Khouangville. General Vang Pao responded by ordering Lao aircraft to bomb Communist positions around the Plaine.

At a press conference on 23 February, Prime Minister Souvanna said that he would protest the violations to the International Control Commission. Souvanna also said that his forces would "pay any price" to retake Paksong.

International reaction to the cease-fire announcement has been predictably positive. Peking's People's Daily extended warm congratulations, hailing the agreement as a "tremendous victory for the Lao people." Soviet diplomats in Vientiane and TASS commentators in Moscow have likewise welcomed the agreement. North Vietnamese leaders Ton Duc Thang and Pham Van Dong sent official congratulations to Lao Communist leader Souphanouvong, calling the settlement a "success of the militant solidarity of the three Indochinese peoples" and pledging North Vietnamese support. [redacted]

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SOUTH VIETNAM: President Thieu's new "popular front" should contribute to the appearance of unity among non-Communist forces, but may do little to broaden support for the government over the long term.

The front, which held its public inaugural meeting yesterday in Saigon, brings together a wider range of groups than were previously associated with the government, including some opposition forces. The front is designed to serve the government as an advisory body and may take part in Saigon's contingent to the tripartite National Council for National Reconciliation and Concord called for in the peace agreement. Government supporters also acknowledge the front is intended to improve the government's image at the Paris conference next week and during Thieu's visit to the US this spring.

The front is Thieu's first direct effort in several years to bring the country's major political and religious groups formally into the government camp. Earlier government-backed alliances foundered over mutual distrust and the President's unwillingness to give the politicians any meaningful role in his government. More recently, Thieu has created his own government party, the Democracy Party, with the bureaucracy and the army as its backbone. The party's role in the new "popular front" has not been spelled out, but one front participant claims that party cadre are to hold all of the key positions.

Reaction to the new front varies from optimism that it can become an effective counter-force to the Communists to suspicion that it is only for "show." The country's most influential opposition, the An Quang Buddhists, are being cautious. Several An Quang senators attended the first organizational meeting, but the An Quang religious hierarchy subsequently indicated that it did not wish to commit itself. Several other opposition figures are considering setting up a rival front, but their prospects seem poor.

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If the front is to develop into a lasting and significant force, Thieu will have to give the groups that have joined some share in the power. These groups will quickly become restive if the Democracy Party assumes the most important positions. Moreover, several of the participants have been pressing Thieu to liberalize his restrictive decrees on political parties and the press and to act more forcefully against corruption. His responsiveness may influence their willingness to cooperate in the front.

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INTERNATIONAL MONETARY DEVELOPMENTS: The dollar closed lower yesterday against most European currencies in hectic but light trading. The gold price dropped slightly.

Although the dollar made a modest recovery Friday in late trading on European markets, it was not enough to offset the earlier sharp drop in trading described by London bankers as "chaotic." The West German, French, Belgian, Dutch, and Swedish central banks all made small interventions to support the dollar, the first such purchases by these banks since the dollar devaluation. The Bundesbank, in fact, had sold about \$1 billion earlier this week to prevent the dollar from rising above its ceiling. The mark closed up about 2.4 percent against the dollar, and has moved in two days from its floor to near its ceiling. In Japan, on the other hand, the dollar closed slightly higher, in part because of rumors that Tokyo would slow down issuance of ship-building export licenses.

Gold closed in London at \$84.00 an ounce yesterday, only a slight drop from Thursday's close but a sharp fall from the peak asking price of \$95.50 in early Friday trading. The price volatility demonstrates the thinness of the market as well as speculative fever.

According to Bundesbank Vice-President Emmerich, major nations are convinced that they must defend the recent currency settlement at all costs. Speaking at the end of a Special Balance-of-Payments Committee meeting of the Organization for Economic Cooperation and Development in Paris yesterday, he said that the members were not influenced by recent turmoil in the gold and currency markets. There were "various guesstimates" at the meeting that improvement would be seen in the international trade

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picture in 1973 and that a return to US balance-of-payments equilibrium is likely in the next 12-18 months. Emminger probably made his remarks in an effort to improve the atmosphere in currency markets and to dampen the impact of comments from other financial leaders on the likelihood of a joint European float. It is unlikely, however, that speculators will be impressed by optimistic words alone.

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USSR: The Soviets will again be in the market for sizable quantities of grain, according to a public lecturer in Leningrad.

The lecturer stated that as a result of the poor 1972 harvest, an additional 20 million tons of feed grain--about \$2 billion at current prices--must be purchased. He did not specify the time period for the new purchase. It is highly unlikely that a final decision on imports has been made. However, a large import estimate may have been floated to influence the expansion of grain acreage in the West, because the Soviets are aware that Embassy officials attend these lectures. The audience was assured that Soviet gold reserves would be adequate to cover these new purchases and that "any talk of a gold shortage is groundless."

The speaker also claimed that Soviet agriculture needs at least 300 billion rubles of investment for the current five-year plan period but that only 128 billion have been allocated. He contended that at this rate a solution of the USSR's chronic agricultural problems is a long way off. Questioned about Minister of Agriculture Matskevich's dismissal, he described him as an experienced agricultural economist who lacked the breadth of view to handle the problems of the different agricultural regions of the country. He added that the new minister, Dmitry Polyansky, is "an agronomist," who should be able to deal with the problems of agriculture at a higher level.

Last year, the Soviets bought over 29 million tons of wheat and feed grains for delivery by mid-1973 financed by gold sales and credits. If they are to maintain their program to upgrade the Soviet diet by raising more livestock, Moscow will need imports even in good harvest years. With average harvests, the USSR will require a minimum of 40 million tons during the next three years to meet their

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plans for output of livestock products. So far, they have not made any new purchases for fiscal 1974, but the prospects for this year's crop are not good. There was a record shortfall in fall sown grain--which usually supplies about 30 percent of total grain output--and a current lack of snow cover combined with cold temperatures may have killed an above-normal proportion of the new seedlings.

The lecturer's position on more capital investment for agriculture may reflect the ideas of Polyansky, who has long favored large allocations to this sector. Agriculture already absorbs about one quarter of total investment, however, and probably could not efficiently use more. Significantly larger allocations, moreover, would aggravate competition among other resource claimants. Although the reliability of the lecturer's figures for imports and investment is questionable, his presentation is undoubtedly intended to convey to the average Soviet that the leadership stands firm on its commitment to the farm program.

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PANAMA: The government's decision to allow the return from exile of the secretary-general of the Panamanian Communist Party may be intended to encourage sympathetic treatment of Panama by the Soviet bloc at the UN Security Council meeting next month.

Soviet Politburo candidate-member Ponomarev met with Secretary-General Sousa this week, and they presumably discussed Panamanian party matters and national issues. Torrijos may believe that allowing Sousa to end his four-year exile would please the Soviets and encourage them to provide financial assistance or increased political support on the canal issue. The move could also keep the Panamanian Communist Party off balance, at least in the short run, by precipitating a showdown between Sousa and acting Secretary-General Porcell.

Until recently Torrijos had remained wary of the Communist Party, but his concern has been eased by its internal problems, financial difficulties, and inability to exploit the few government positions he has allowed it to fill.

Soviet propaganda treatment of the canal issue remains infrequent and relatively restrained. The Soviets appear to be taking a cautious approach toward the council meeting. They will not wish to appear disinterested, but they would like to avoid extended polemics with the US at this time. [redacted]

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NATIONALIST CHINA - US: There is manifest Nationalist Chinese concern over the US-PRC agreement, but this development is unlikely to have much immediate impact on Taiwan's current stability and prosperity. Taipei probably believes that the agreement means that Washington has secured Peking's acquiescence in maintaining the status quo on Taiwan for the time being--a point made by at least one government-oriented newspaper. The government is clearly worried about the future evolution of US policy, but this concern will not prevent continued interest in preserving close relations with Washington. The Foreign Ministry statement criticizing the US action, for example, was significantly shorter and more restrained than previous declarations on US-PRC relations.

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IRELAND: Prime Minister Lynch's pledge to abolish all property taxes by early next year is a good indication that Wednesday's election will be very close. The opposition Fine Gael - Labor Party coalition, which is hammering hard on popular economic issues, has cut deeply into the early lead established by the ruling Fianna Fail. Lynch's surprise announcement may swing voter sentiment back to the government despite the opposition's promises to reduce property taxes, which have long been inflated by the costs of services not related to housing. An electoral stalemate could bring a weak government to power just as the Ulster situation becomes more complicated by the publication--probably late next month--of the British white paper on the province's future.

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BANGLADESH: With national elections 11 days away, the ruling Awami League apparently is running well ahead of its opponents. Many observers in Dacca expect the League to win 270 or more of the 300 parliamentary seats. Prime Minister Mujib, who is by far the country's most popular personality, is campaigning extensively throughout the country. The main opposition parties appear weak and dispirited, and at least one of them reportedly is considering withdrawing its candidates. The upsurge in violence that was widely feared when the campaign began has not materialized, probably because the opposition parties realize they would be outnumbered and outgunned in any major violent confrontation with the Awami League.

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BANGLADESH: Dacca has secured 1.5 million tons of foodgrains since January, more than half of its 1973 import requirements. A purchase of 1.1 million tons, consisting largely of wheat from Argentina, cost Bangladesh \$125 million. The rest has been committed by aid donors, including 200,000 tons from the US and 165,000 tons from Canada. The UN had estimated late last year that the foodgrain deficit this year would be about 2.5 million tons and advised Bangladesh to buy 800,000 tons to supplement contributions from foreign donors. With national elections scheduled for 7 March, Dacca probably made its purchases early to demonstrate its concern over rising food prices.

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WEST GERMANY: The Bundesbank is relaxing the restrictions on non-residents' purchases of German equities that were introduced earlier this month to block capital inflows during the monetary crisis. The new scheme will permit commercial banks to sell securities to non-residents to the extent that foreign holdings are reduced by sales or redemptions. Bundesbank controls over sales of fixed-interest securities to non-residents, in effect since last June, also will be relaxed. The Bundesbank's action appears to be primarily a technical move designed to afford commercial banks greater flexibility in their security dealings with non-residents. The banks are the principal security brokers in Germany, and this move should stimulate their foreign brokerage business without significantly increasing capital inflows.

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PERU: President Velasco remains in serious condition following emergency surgery yesterday for an abdominal aneurysm. The military government he has headed since its inception in 1968 is capable of carrying on with a minimum of disruption. Temporary leadership will be provided by Prime Minister Mercado, who also holds the posts of minister of war and army commander. Should Velasco fail to recover or be forced into an unplanned retirement, Mercado almost certainly would be named president by the three armed services chiefs sitting as the revolutionary junta. Mercado may be more amenable to moderating influences than Velasco and there undoubtedly would be changes in the pace and style of the military's revolution, but there would be little reason to expect a dramatic lessening of the armed forces' commitment to domestic change and a staunchly independent foreign policy.

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